

Message Text

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43

ORIGIN EB-11

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APPROVED BY EB/OT/STA:EWKEMPE
ARA:DSZABO/COMMERCE:AGARCIA (SUBS
ARA/CAR:GHIGH(DRAFT)/STR:AGARLAND-
ARA/ECP:CREYNOLDS(DRAFT)
EA/ROC:JMOYLE(DRAFT) (SUBS
ARA/EP:KGUTHRIE(DRAFT)
EA/K:HNEWSOM(DRAFT)
ARA/CEN:JSULLIVAN(DRAFT)
AGRI:RMMCCONNELL(SUBS)

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TO AMEMBASSY QUITO
AMEMBASSY SAN JOSE
AMEMBASSY MEXICO
AMEMBASSY SANTO DOMINGO
INFO AMEMBASSY SEOUL
AMEMBASSY TAIPEI

C O N F I D E N T I A L STATE 238751

E.O. 11652: GDS

TAGS: ETRD, TS, KS, EC, CS, MX, DR

SUBJECT: MUSHROOMS

REFS: A) SAN JOSE 3915(NOTAL); B) MEXICO 8342

C) DANTO DOMINGO 4368(NOTAL); D) STATE 173821

E) SAN JOSE 4154

1. DEPARTMENT APPRECIATES TIMELY REPORTING OF RECENT
DEVELOPMENTS LIKELY TO AFFECT FUTURE U.S. IMPORTS OF CANNED
MUSHROOMS.

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2. BASED ON THE DATA CONTAINED IN REFTELS AND THE GOE NOTE,
IT APPEARS THAT U.S. IMPORTS FROM ECUADOR, COSTA RICA,
MEXICO AND THE DOMINICAN REPUBLIC MAY BE EXPECTED TO
DEVELOP AS FOLLOWS:

1972 1973 1973 1974 1975
(JAN-SEPT) ESTIMATED

ECUADOR	0.46	0.49	0.68	2.6	3.6
ECUADOR	0.46	0.49	0.68	2.6	3.6
COSTA RICA	0.39	0.31	0.43	1.8	3.2
MEXICO	0.47	0.23	0.33	0.8	3.0
DOMINICAN	0.03	0.24	0.34	2.6	3.4
REPUBLIC					

(ALL FIGURES ARE IN MILLIONS OF POUNDS DRAINED WEIGHT). FROM THE ACTUAL AND ESTIMATED 1973 FIGURES, IT MIGHT APPEAR THAT THE 1974 AND 1975 PROJECTIONS ARE OVERSTATED. HOWEVER RECENT RAPID INCREASES IN KOREAN EXPORT INDICATE THAT IT IS POSSIBLE TO EXPAND PRODUCTION AND EXPORTS AT SUCH RATES. EVEN IF THE 1974 PROJECTIONS WERE DISCOUNTED BY 50 PERCENT, AN ADDITIONAL 2.5 TO 3.0 MILLION POUNDS ARE INTENDED FOR EXPORT TO THE U.S. MARKET OVER THE NEXT 15 MONTHS.

3. PUTTING THESE FIGURES INTO PERSPECTIVE REQUIRES AN UNDERSTANDING OF THE ECONOMIC POSITION OF THE DOMESTIC INDUSTRY AND THE EFFECT THAT IMPORTS, PARTICULARLY FROM THE ROC AND ROK, HAVE HAD DURING THE PAST FIVE YEARS. MUCH USEFUL BACKGROUND INFORMATION IS CONTAINED IN THE RECENT REPORT (332-72) PREPARED BY THE TARIFF COMMISSION AND ALREADY TRANSMITTED TO ADDRESSEES.

4. BASED ON THE INFORMATION AVAILABLE, THE MUSHROOM PROCESSING INDUSTRY IS MADE UP OF SOME 35 FIRMS CONCENTRATED FOR THE MOST PART IN PENNSYLVANIA. THIS INDUSTRY IS LABOR INTENSIVE. A STUDY DONE IN 1967 CONCLUDED THAT ABOUT 40 PERCENT OF THE COST OF A CAN OF MUSHROOMS GOES TO LABOR. AS A RESULT, RISING U.S. WAGE LEVELS HAVE HAD A STRONG IMPACT ON OVERALL INDUSTRY COSTS.

5. THE INDUSTRY HAS WORKED TO INCREASE CONSUMPTION
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THROUGH ADVERTISING. THE INDUSTRY CLAIMS THAT WHILE IT HAS BORNE THE COSTS OF SUCH ADVERTISING, ITS OWN SALES HAVE NOT INCREASED AS MUCH AS SALES OF IMPORTED CANNED MUSHROOMS. THE INDUSTRY BLAMES INCREASING IMPORTS FOR REDUCING ITS SHARE OF THE ANNUAL INCREASE IN CONSUMPTION. BETWEEN 1968/69 AND 1972/73 TOTAL U.S. SALES INCREASED AT AN AVERAGE ANNUAL RATE OF 13.4 PERCENT. WHILE SALES OF THE DOMESTICALLY PRODUCED PRODUCT WENT UP BY AN AVERAGE 9 PERCENT PER YEAR, IMPORTS INCREASED BY AN AVERAGE 28 PERCENT. MOREOVER, THE INDUSTRY CLAIMS THAT INCREASED IMPORTS HAVE CUT INTO PROFIT LEVELS AND PREVENTED THE FINANCING OF THE INVESTMENT NECESSARY TO EXPAND AND MODERNIZE PRODUCTION FACILITIES.

6. THESE ARE THE CIRCUMSTANCES WHICH GAVE RISE TO THE INDUSTRY PETITION FOR IMPORT RELIEF, AND WHICH LED THE ADMINISTRATION TO RESPOND. SINCE THIS DECISION WAS MADE AND SUBSEQUENT TO THE REQUEST MADE TO THE ROC AND ROK, THE PRINCIPAL SUPPLIERS, TO RESTRAIN EXPORTS TO THE U.S. (REF D), A NEW DEVELOPMENT HAS MADE THE MATTER MORE URGENT. IN OCTOBER, THE FOOD AND DRUG ADMINISTRATION ANNOUNCED AN INSPECTION PROGRAM COVERING ALL CANNED MUSHROOMS IN WAREHOUSES AT THAT TIME. THIS PROGRAM WAS TRIGGERED BY THE DISCOVERY OF 5 INSTANCES OF BOTULISM CONTAMINATION. THE FDA INSPECTION SHOULD BE COMPLETED SHORTLY, AND A FINAL REPORT WILL BE PUBLISHED EARLY IN THE NEW YEAR. IN THE

MEANTIME, PRESS REPORTS OF THE CONTAMINATION ARE HAVING A PRONOUNCED EFFECT ON CONSUMPTION, AT LEAST TO THE EXTENT THAT PRICES TO GROWERS ARE ANY GUIDE. THESE PRICES ARE MUCH LOWER IN 1973 THAN FOR THE CORRESPONDING PERIOD IN 1972. AT THE GROWER LEVEL, PRICES, AS RECORDED BY USDA THROUGH NOVEMBER 2, WERE DOWN FROM THE 34-36 CENT PER POUND RANGE TO 27-30 CENTS PER POUND. THIS REPRESENTS A RETURN TO PRICES WHICH PREVAILED IN 1968. AT THE WHOLESALE LEVEL, THE BLS INDEX (DEC. 1967 EQUALS 100) FOR A 4 OUNCE CAN DECLINED FROM 117.2 IN APRIL 1972 TO 111.6 IN SEPTEMBER 1973. WHILE SOME OF THIS DECLINE CAN BE ATTRIBUTED TO SUPPLY OUTRUNNING DEMAND, WITH RESULTING SHARP INCREASES IN INVENTORIES IN 1972, THE CUMULATIVE EFFECT OF ALL THESE FACTORS CAN BE EXPECTED TO BE A CONFIDENTIAL

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TINUED LOW LEVEL OF PRICES TO GROWERS AND WHOLESALERS AS WELL AS REDUCED CONSUMPTION.

7. IN THESE CIRCUMSTANCES, IT IS HIGHLY UNLIKELY THAT THE U.S. MARKET AND DOMESTIC INDUSTRY COULD ABSORB RAPID INCREASES IN IMPORTS OF CANNED MUSHROOMS FROM ANY SOURCE, INCLUDING LATIN AMERICA WITHOUT ADDITIONAL INJURY TO U.S. PRODUCERS. IMPORTS ALREADY ACCOUNT FOR ABOUT 35 PERCENT OF U.S. SALES. UNLESS RESTRAINED, IMPORTS COULD REACH A LEVEL OF OVER 50 PERCENT DURING A PERIOD OF FLAT OR DECLINING GROWTH RATES IN CONSUMPTION. IT IS ALSO CLEAR THAT ANY SHARP INCREASES IN U.S. IMPORTS FROM OTHER SOURCES CAN ONLY COMPLICATE OUR EFFORTS TO NEGOTIATE RESTRAINT ARRANGEMENTS WITH THE ROC AND ROK. IT CAN BE EXPECTED THAT THE ROC AND ROK WILL NOT AGREE TO RESTRAINT AGREEMENTS THAT DO NOT ALLOW THEM TO MAINTAIN LEVELS APPROXIMATING THEIR EXISTING MARKET SHARES, IMPLYING THAT RESTRAINTS MAY BECOME NECESSARY IF OTHER EXPORTS TO THE U.S. SHARPLY RISE ABOVE PRESENT, 1973, LEVELS.

8. DRAWING ON THE ABOVE AND THE INFORMATION CONTAINED IN THE TARIFF COMMISSION REPORT, THE EMBASSY IS REQUESTED TO

MAKE AN EARLY LOW-KEY APPROACH TO APPROPRIATE HOST
GOVERNMENT OFFICIALS STRESSING THE FOLLOWING POINTS:

(A) IN THESE CIRCUMSTANCES, THE U. S. MARKET WILL BE
UNABLE TO ABSORB RAPID INCREASES IN IMPORTS FROM ANY
SOURCE INCLUDING THOSE PROJECTED IN REFTELS. WE ARE
DISCUSSING WITH KOREA AND THE REPUBLIC OF CHINA,
WHICH TOGETHER SUPPLY ABOUT 90 PERCENT OF U.S. IMPORTS,
MEANS TO RESTRAIN VOLUNTARILY INCREASES IN EXPORTS TO THIS
COUNTRY.

(B) IF RESTRAINT ARRANGEMENTS ARE REACHED WITH THE
ROC AND ROK, ANY SHARP INCREASES IN SHIPMENTS FROM LATIN
AMERICA WILL RESULT IN IMMEDIATE AND STRONG PRESSURES
FROM THE INDUSTRY AS WELL AS ROC AND ROK FOR RESTRAINTS
ON IMPORTS FROM THOSE COUNTRIES. WE ARE NOT AT PRESENT
ABLE TO INDICATE THE LEVEL TO WHICH OTHER EXPORTERS WOULD
BE RESTRAINED, SHOULD IT PROVE NECESSARY TO DO SO.
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PRESENT LOW LEVELS OF EXPORTS FROM LA COUNTRIES ARE NOT A
CAUSE FOR CONCERN, NOR ARE THEY THE REASON FOR THIS MESS-
AGE. IT IS HIGH PROJECTED RATES OF INCREASE FROM THESE
LOW LEVELS THAT IS CAUSE FOR CONCERN, COMPOUNDING THE
PROBLEM WITH THE ROC AND ROK.

(C) LOCAL GOVERNMENTS MAY WISH TO ADVISE EXPORTERS
OF WORSENING MARKET CONDITIONS IN THE U.S. IN VIEW OF THIS
SITUATION LOCAL EXPORTERS MAY WISH TO SEEK TO DIVERSIFY
THEIR MARKETS IN ORDER TO REDUCE THEIR DEPENDENCE ON THE
U.S.

9. DEPARTMENT OFFICIALS HAVE ALREADY DISCUSSED THIS ISSUE
WITH ECUADORIAN AND COSTA RICAN EMBASSY REPRESENTATIVES,
AT THEIR REQUEST. (THEY HAD BECOME AWARE OF THE NEGOTIA-
TIONS WITH THE ROC AND ROK.) THEY EXPRESSED APPRECI-
ATION FOR BEING GIVEN THE INFORMATION AND UNDERTOOK TO
INFORM THEIR GOVERNMENTS. WE ALSO PLAN TO INFORM MEXICAN
AND DOMINICAN REPUBLIC EMBASSY OFFICERS OF THE CURRENT
SITUATION. KISSINGER

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